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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 06/12/08

INDEX:

- (1) Fierce battle over mounting priority policy issues in next extraordinary Diet session inevitable with eye on Lower House election (Nikkei)
- (2) Legislative branch of government: Weakening power of strongest trump card (Yomiuri)
- (3) In G-8 finance ministerial starting tomorrow, focus of attention is on whether Japan, U.S.; Europe can take joint steps in fighting inflation (Nikkei)
- (4) Interview with JETRO Chairman Yasuo Hayashi: Urges banks to inject capital for building of infrastructure in developing countries (Tokyo Shimbun)
- (5) METI urges firms not to adopt self-serving takeover defense measures, giving consideration to criticism for "lack of openness" (Nikkei)
- (6) Gap seen on base noise readouts (Ryukyu Shimpou)
- (7) LDP, Agriculture Ministry decide on additional 70 billion yen in aid for livestock, cattle farmers, given soaring feed prices (Nikkei)

ARTICLES:

- (1) Fierce battle over mounting priority policy issues in next extraordinary Diet session inevitable with eye on Lower House

election

NIKKEI (Page 2) (Abridged slightly)  
June 12, 2008

In the wake of the adoption by the Upper House of a censure motion against Prime Minister Yasuo Fukuda, the confrontational mood between the ruling and opposition blocs has now become even clearer. With an eye on the next Lower House election, the two camps are expected to lock horns from the beginning of the next extraordinary Diet session, possibly convened in late August. Discussions on a plethora of priority policy issues, such as an extension of the law governing the refueling operation in the Indian Ocean, which is to expire in January 2009, a bill establishing a consumer affairs agency, and sweeping tax reform, are certain to bog down.

Members of the shadow cabinet of the Democratic Party of Japan met in the Diet building yesterday afternoon, about the same time the censure motion against the prime minister was submitted to the Upper House. The members discussed a consumer affairs agency-related bill, which the government is preparing for the next extra Diet session under the initiative of the prime minister. The meeting decided to speedily come up with a counterproposal. The DPJ is now set to take a clear adversarial stance against the government and the ruling bloc.

DPJ Diet Affairs Committee Chairman Kenji Yamaoka said: "Once the ongoing Diet session is over, we will shift into election mode in accordance with President Ichiro Ozawa's order."

The Indian Ocean refueling law, which was readopted in the Lower  
TOKYO 00001609 002 OF 009

House in January this year, is expected to take center stage first in the next Diet session. The DPJ, which rejected the legislation in the Upper House, plans to oppose another extension.

The government and the ruling coalition envisage using once again the constitutional rule allowing the Lower House to readopt the same bill 60 days after its first approval. In order to settle the refueling legislation before the budget compilation at the end of the year, the bill must pass the Lower House in early October.

The opposition bloc is also set to object to a number of bills to be carried over, including one amending the government health insurance support special provisions law.

There is some skepticism about how far the DPJ can uphold its hard-line stance after the current Diet session is over. Former Prime Minister Junichiro Koizumi predicted in a speech in Yokohama: "The ruling bloc will regret its presentation of the censure motion. The prime minister will neither dissolve the Lower House nor opt for resignation en masse."

Taxation and fiscal reforms will be the biggest bones of contention before the compilation of the fiscal 2009 budget. The government and the ruling coalition have vowed to raise the government's contribution to the basic pension in fiscal 2009. This requires 2.3 trillion yen. Hiking the consumption and cigarette taxes is being mentioned.

Given the likelihood that the next Lower House election will take place before the term of the chamber expires in September 2009, the ruling camp is bound to become evasive regarding tax hikes. In yesterday's LDP fiscal reform council meeting, even Yuji Tsushima, who is relatively positive about tax hikes, asked the words "this fall" be removed from the party's plan for sweeping taxation reform.

In the LDP, former Secretary General Hidemao Nakagawa's policy course is vying with former Chief Cabinet Secretary Kaoru Yosano's policy line. The prime minister's target of curbing the growth of social security spending by 220 billion yen is also drawing fire from within the LDP. Some LDP members are calling for altering the government's policy of cutting spending on education, as well.

## Major challenges for the Fukuda administration

### Road policy

- ? Freeing up road-related revenues for general spending
- ? Reviewing the road construction program

### Social security

- ? Raising the government's contribution to the basic pension to 50 PERCENT of the total
- ? Reviewing the medical insurance system for people aged 75 and older

### Taxation system

- ? Sweeping reform of the taxation system, including the creation of an environmental tax and hiking the consumption tax

### Security

- ? Extension of the Indian Ocean refueling law
- ? Enacting a permanent law governing the overseas dispatch of the

TOKYO 00001609 003 OF 009

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### Consumer policy

- ? Enacting a consumer affairs agency establishment law

Major bills to be carried over to the next extraordinary Diet session

- ? Regional power revitalization corporation legislation
- ? Bill amending the General Law of Independent Administrative Agencies
- ? Government health insurance support special provisions bill
- ? Bill amending the Organ Transplant Law
- ? Bill amending the Antimonopoly Law
- ? High quality durable housing dissemination and promotion legislation

(2) Legislative branch of government: Weakening power of strongest trump card

YOMIURI (Page 1) (Full)  
June 12, 2008

In a plenary session yesterday afternoon of the House of Councillors, Democratic Party of Japan (DPJ) Diet Affairs Committee Chairman Susumu Yanase failed to wrap up the last passage of a speech.

His draft went:

"Mr. Prime Minister, are you going to remain in office with an attitude of unconcern without dissolving the House of Representatives and resigning en masse? That would be enough. Because half of the Diet expressed its view that you are not suitable for the prime minister's job and that will remain forever."

The DPJ has insisted that a censure motion against the prime minister would lead to a Lower House dissolution and snap election since the politically divided Diet situation appeared due to the result of last year's House of Councillors election last July. The DPJ, the largest force in the Upper House, appears to have regarded a censure motion against Fukuda as the strongest trump card, but other opposition parties had their own motives.

In a meeting yesterday of the secretaries general of four opposition parties, the Japanese Communist Party's Tadayoshi Ichida said:

"The present situation is that we cannot expect the resignation of the cabinet and dissolution of the Lower House. By submitting a motion even though there will be no effect, we will lose an important means to attack the ruling camp."

In a meeting yesterday of the Social Democratic Party, which has consistently argued the need for submission, Chairperson Mizuho Fukushima in high spirits said: "We will thrust the public's anger

at the government." A People's New Party member stated: "I want the DPJ to disagree with the government's nomination for a Bank of Japan policy board member," using its cooperation for a censure motion as a bargaining tool.

There has been a shift in the DPJ members' thinking of a censure motion. The reason is that Fukuda made clear his stance of ignoring

TOKYO 00001609 004 OF 009

the motion.

This year, the ruling camp has resorted to its two-third majority in the Lower House to enact three bills extending the Maritime Self-Defense Force's refueling mission in the Indian Ocean, reinstating the provisional gasoline tax, and maintaining the tax revenues earmarked for road construction and maintenance. The DPJ looked into the possibility of submitting a censure motion against Fukuda on the grounds that he had ignored the Upper House and hesitated to submit the motion.

Ozawa's aides discussed Diet strategies on April 28, a day after the DPJ's candidate had won the Lower House by-election to fill the Yamaguchi No. 2 constituency seat backed by public criticism of the new health insurance system for those aged 75 and older. At the time, one participant posed a question about the "idea of a censure motion having power," saying:

"The reason for then Defense Agency Director General Fukushiro Nukaga having resigned his post (after he was censured in 1998) was not the power of the censure motion, but it was then Chief Cabinet Secretary Hiromu Nonaka's overreaction to try to protect Nukaga, who was a promising candidate from their faction."

In a meeting on May 21 of a DPJ group to study of how the Upper House should be, former Upper House member Sadao Hirano pointed out: "Depending on a reason and purpose, the prime minister will have no choice but to resign. If (the DPJ) fails to give full consideration when submitting (a censurer motion), (public support) will go to the other side."

As a result, the DPJ's choice was to submit a motion at the end of the current session, which gives the party minimum time to boycott Diet deliberations, which will keep a negative impact to minimum.

In the process of the "strongest trump card" losing its power, it gave the impression that the power of the trump card would completely change depending on the political situation.

(3) In G-8 finance ministerial starting tomorrow, focus of attention is on whether Japan, U.S.; Europe can take joint steps in fighting inflation

NIKKEI (Page 5) (Full)  
June 12, 2008

Finance chiefs from the Group of Eight (G-8) will discuss how to cope with the risk in world inflation triggered by soaring oil prices and the depreciation of the dollar. But it is difficult for Japan and the U.S., both of which are strongly concerned about recession, to fall in step with Europe, which wants to give priority to commodity price stabilization by raising the interest rate. If Japan, the U.S., and Europe fail to come up with an effective message about their policy coordination, market players may point out a lack of unity among them.

Japan, U.S. unlikely to fall in step with Europe eager to raise interest rates

There is an increasing possibility that a period of inflation combined with stagnation - the so-called stagflation - may be set in. The European Central Bank (ECB) is now eager to raise interest

TOKYO 00001609 005 OF 009

rates, while the U.S. has hinted a policy switch, as seen from its

verbal intervention in the market with the aim of pushing up the value of the dollar. Many observers however see it difficult for Japan, the U.S., and Europe to come up with concerned anti-inflation measures.

The greatest cause for concern in the Eurozone is the problem of skyrocketing commodity prices. The rate of increase in consumer prices in May, compared with the same month a year ago, reached 3.6 PERCENT, marking the highest level since the debut of the Euro. Working out anti-inflation measures is thus becoming a major political challenge. Under such a situation, ECB President Jean-Claude Trichet announced in a press conference on June 5 that his bank would raise the interest rate. His remark, however, drew little criticism from the governments in the Eurozone. In the upcoming G-8 finance ministerial, as well, Europe is expected to insist on the need for anti-inflation measures.

The U.S. Federal Reserve Bank (FRB) also began to take anti-inflation measures. Given growing concern that the weak dollar and high oil prices could incur inflation around the world, the U.S. has judged it necessary to approach the ECB, which prioritizes price stabilization. But the unemployment rate remains high, and the housing market is still stagnant in the U.S.

It will be difficult to raise the interest rate unless the domestic economy and financial market remain firm. Even so, if it fails to take some measures, an expanded difference in interest rates between the U.S. and Europe may push down the dollar's value further.

Although the Bush administration has made a "strong dollar" commitment, it has tolerated the weak dollar. The weak dollar has contributed to increasing exports and underpinning its economy. The funds that have nowhere to go began to be poured into the oil market, resulting in shooting up its prices. There is now an increasing fear that inflation may hit the heart of the global economy. Alarmed at the current situation, the Department of the Treasury and the FRB are ready to unprecedently step into the market to prevent a further weakening of the dollar.

Also in Japan, the Cabinet Office indicated the possibility that the economy has started on a downward slope. The Domestic Corporate Goods Price Index in May posted its highest record in about 27 years. Although the effect of rising oil prices has been gradually spreading, the Bank of Japan finds it difficult to take action.

On the occasion of Black Monday in 1987, West Germany raised the interest rate to tame inflation despite growing concerns about a weaker dollar. The retrenched gap in interest rates between the U.S. and Germany led to growing concern about a plunge in the dollar, resulting in confusing the market and shedding a huge value in a short period. As it stands, a lack of unity among major industrialized countries caused the havoc. Some observers point out the "point in common" between the current situation and that at the time of Black Monday.

(4) Interview with JETRO Chairman Yasuo Hayashi: Urges banks to inject capital for building of infrastructure in developing countries

TOKYO SHIMBUN (Page 9) (Full)  
June 12, 2008

TOKYO 00001609 006 OF 009

Finance ministers from Group of Eight (G-8) Nations will discuss on June 13-14 the impact of the steep rise in crude oil and food prices on the global economy. The Tokyo Shimbun asked Yasuo Hayashi, chairman of the Japan External Trade Organization (JETRO), a former director general of the Small and Medium Enterprise Agency who has many contacts in oil-producing Middle East nations, about the backdrop of the steep rise in resources prices and discussion themes that should be pursued at the G-8 financial ministerial.

-- What impact will the sharp rise in crude oil and food prices have on the global economy?

"Famine is spreading in developing countries. It will become more serious than the income disparity issue. Industrialized countries' economies are slowing due to the subprime mortgage crisis. In the meantime, if the current pace of price hikes accelerates, stagflation could occur. Measures to deal with inflation are needed. At the same time, it is also necessary to firmly support economic growth. Monetary policy steering will be very difficult."

-- What do you think are the causes of the high crude oil and food prices?

"The impact of the demand side on the current prices rise is great. Demand for crude oil among emerging countries, such as China and India, is increasing due to rapid economic development. The increasing meat consumption is significantly pushing up demand for grain. That is because raising farm animals for human consumption requires feed grains four to five times greater than the amount needed when eaten as is by humans."

"However, Middle East countries say that demand for crude oil has not increased in proportion to the price rise. It may be true in a way. It is certain that speculative funds are pushing up prices more than demand is."

-- What makes speculators able to continue invest a great amount of fund?

"That is because there is a glut of money throughout the world due to industrialized countries' low-interest rate policy. It cannot be helped to some extent that market players pursue short-term benefits. However, it is not good for them to do so excessively. The five-nation energy ministerial on June 7 issued an unusual joint statement, determining that the current high crude oil prices are abnormal. It may be difficult to curb market movements, but I would like the finance ministerial to issue a message seeking restraint from the market."

-- What would be the desired form of fiscal and financial polices?

"The role of financial services is to inject money into the real economy. There are many countries in the world that need roads, railways, ports and harbors. Investment in energy-saving areas is also sought due to the global warming issue. If there is a glut of money, banks should use more capital for such projects."

"Some African countries have achieved high economic growth. If developing countries' economies grow, the global economy would develop more. I want policy officials of industrialized countries to back banks so that they invest capital in those areas."

TOKYO 00001609 007 OF 009

(5) METI urges firms not to adopt self-serving takeover defense measures, giving consideration to criticism for "lack of openness"

NIKKEI (Page 2) (Excerpts)  
June 11, 2008

A study group of the Ministry of Economy, Trade and Industry (METI) has produced a report specifying under what conditions companies are allowed to adopt anti-takeover measures. The report urges corporate managers to make an appropriate response, defining the current formula of entrusting a judgment on the propriety of taking preventive measures to a vote by shareholders as "aimed to avoid responsibility." It also says that hostile takeover bids could generate positive effects in some cases as they may lead to an improvement in corporate governance, noting that anti-takeover measures aimed at trying to protect management's own interests should not be allowed.

The study group on corporate values will finalize its report today. The group, chaired by Tokyo University Graduate School Professor Hideki Kanda, is composed of academics, institutional investors, and legal experts. The members have produced the report, based on a recent change in legal judgments, as seen from the case of a U.S. investment fund's takeover bid for Bulldog Sauce. Although the

report has no binding power, the report will serve as a guideline for corporate managers in adopting anti-takeover measures.

In 2005, the study group produced its initial report. Based on the report, METI and the Justice Ministry presented guidelines, and about 500 companies have adopted anti-takeover measures in accordance with the guidelines. However, in order to adopt self-serving protective measures, some companies have stretched the expression that "shareholders' interests will be apparently undermined" inserted in the guidelines. Investors often criticize increasing cases of Japanese companies adopting anti-takeover measures as aimed to exclude institutional investors from the Japanese market and showing its closed nature. Keeping such criticism in mind, the panel inserted in the latest report stricter conditions for adopting preventive measures.

The report specifies that hostile takeovers may (1) correct the discipline in companies; and (2) improve shareholders' interests. It also says that anti-takeover measures may lead to depriving shareholders of a chance to sell their stocks.

The report also stresses the importance of the role to be played by boards of directors and protection of shareholder interests. It calls on corporate managers not to adopt self-serving protective measures by citing interests of persons concerned other than shareholders, such as employees or clients, as well as not to prolong the period of studying buyout plans. The report also requires a judgment on the propriety of anti-takeover measures to be made at a board of directors meeting. This measure is based on the view that companies should not pay compensation to takeover planners when the companies adopt protective measures.

#### (6) Gap seen on base noise readouts

RYUKYU SHIMPO (Page 27) (Abridged)  
June 12, 2008

TOKYO 00001609 008 OF 009

The Defense Ministry Okinawa Defense Bureau's readouts of noise levels are lower than the Okinawa prefectural government's readouts in their monitoring of aircraft noise around the Kadena base and Futenma airfield, the Ryukyu Shimpo has found. Except some monitoring spots, the weighted equivalent continuous perceived noise level (WECPNL), as well as the frequency of noise, is low in the government's monitoring. In some areas, the frequency of noise marked a fivefold difference. The government's readouts of noise levels are used as noise data for its environmental assessment of an alternative facility for Futenma airfield. Kozo Hiramatsu, a professor of acoustic environmentology at Kyoto University and an expert on noise problems, notes: "The Okinawa prefectural government's monitor proves to be more efficient in noise monitoring, so I think that's why there is a difference in the frequency of noise." The actual levels of noise around the two bases could be taken as lower.

The Defense Ministry's Okinawa bureau and the Okinawa prefectural government monitor noise at three spots near Kadena Air Base and at four spots near Futenma Air Station, and their monitoring spots are closely situated. To compare their data over the past three years, the prefectural government's WECPNL readouts were higher than the government's readouts, except in some areas. Fiscal 2006's data shows that the WECPNL at Sunabe in the town of Chatan was 79.8 in the government's monitoring and 90.5 in the prefectural government's monitoring, leaving a difference of 10.7 points. In areas near the southern end of Futenma airfield's runway, the government's WECPNL readout was 75.8 at Ojana, and the prefectural government's readout was 80.7 at Uejana, showing a difference of 4.9 points.

In the frequency of noise as well, the Okinawa prefectural government's average readout was 1.9 times higher than the Defense Ministry's at spots near the Kadena base and 2.2 times higher at spots near Futenma airfield. There was a difference of up to 5 times at Chibana in the city of Okinawa. The government's monitoring benchmark is over 70 decibels, so noise levels lower than that, particularly the low-pitched sounds of Futenma-based choppers, can

hardly be monitored.

Furthermore, in the Okinawa prefectural government's noise monitoring, the annual frequency of noise totals more than 30,000 times in Kadena Town's Yara area. This frequency of noise is harder than that at all other monitoring spots. Ginowan City's Nodake area, which is near the northern end of Futenma airfield's runway, shows the third hardest frequency of noise in the city. These two areas, however, are not included in the government's monitoring spots.

Numerical data from the government's noise monitoring in the Ojana area of Ginowan City is used in the government's aircraft noise forecast report that was presented in an environmental survey of the Futenma replacement facility's site. The assessment report is based on data that is lower than the Okinawa prefectural government's data.

(7) LDP, Agriculture Ministry decide on additional 70 billion yen in aid for livestock, cattle farmers, given soaring feed prices

NIKKEI (Page 5) (Full)  
June 12, 2008

In response to skyrocketing feed prices due to the worldwide steep rise in grain prices, the Liberal Democratic Party (LDP) and the

TOKYO 00001609 009 OF 009

Ministry of Agriculture, Forestry and Fisheries (MAFF) decided yesterday to implement a package of emergency measures worth 70 billion yen for livestock and cattle farmers. The necessary money will be doled out of the funds possessed by Agriculture & Livestock Industries Corporation, an independent administrative corporation under the jurisdiction of MAFF. The package includes a measure to raise the amount of subsidies for finished milk producers. MAFF will present the package in deliberations to be held today by external knowledgeable persons.

The government decided this February to provide cattle farmers suffering from business slump affected by soaring feed prices with aid totaling 187.1 billion yen. Given skyrocketing corn prices due to an increase in demand for the product to be used to make biofuel, the government has decided to implement additional measures.

SCHIEFFER